



August 20, 2008

Mr. Richard Timmons
President
American Shortline and Regional Railroad Association
50 F. Street, NW, Suite 7020
Washington, D.C. 20001

Dear Mr. Timmons:

During the past two years I have written to you about our efforts to make sure our rail network is prepared to handle the fall peak season. In each of those letters I provided you some detail on the improvements that we had made in our track infrastructure, locomotives and human resource training with a focus on safety and our electronic data improvements. Those investments in our network have given us significant flexibility in managing our capacity and our ability to deal with peak volume periods.

This year I offer two thoughts:

1. The fall peak service period has been somewhat mitigated by the use of different ports for imports and exports, and by a better supply chain management understanding by railroad Customers. In other words, Customers and railroads are working together better in ways to alleviate congestion.
2. For short line railroads, our best ability to deal with increased volumes is the utilization of the 45G tax credit that is used for capital improvements to the short lines tracks. As this tax credit expired in Dec. 2007 and has not been reauthorized by the Congress, there have been real declines in short line track investment in 2008.

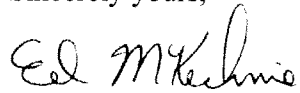
The most help the STB could lend this year to the short line railroad industry, in regards to managing peak and surge rail traffic, would be to advise Congress that their inaction on the short line tax credit threatens future peak/surge shipping seasons, and the ability of short lines to managing that traffic.

In the last three years short lines have made more than \$450 million in additional track investments that have been used to add and improve capacity on the short line network. This has given the rail industry additional capacity to deal with increasing volumes and I believe is a primary reason for service improvements on America's short line railroads. Re-authorization of

the section 45G tax credit should be paramount on the STB Congressional agenda as a primary tool to meet the needs of the seasonal surge traffic.

I hope this information is helpful and meets the needs of the STB.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Ed McKechnie".

A.E. McKECHNIE
Chief Commercial Officer
Watco Companies, Inc.